

Public Employee Retirement System

Analyst: Freeman

Historical Summary

OPERATING BUDGET	FY 2000 Actual	FY 2001 Actual	FY 2002 Approp	FY 2003 Request	FY 2003 Gov Rec
BY PROGRAM					
Administration	3,142,600	5,383,000	5,260,600	5,576,200	5,461,600
Portfolio Investment	335,700	362,500	572,600	636,000	628,900
401(k) Administration	1,100	2,200	7,700	7,700	7,700
Total:	3,479,400	5,747,700	5,840,900	6,219,900	6,098,200
BY FUND CATEGORY					
Dedicated	3,479,400	5,747,700	5,840,900	6,219,900	6,098,200
Percent Change:		65.2%	1.6%	6.5%	4.4%
BY OBJECT OF EXPENDITURE					
Personnel Costs	2,104,900	2,559,900	3,072,800	3,189,500	3,160,300
Operating Expenditures	1,294,900	3,018,300	2,656,600	2,915,900	2,823,400
Capital Outlay	79,600	169,500	111,500	114,500	114,500
Total:	3,479,400	5,747,700	5,840,900	6,219,900	6,098,200
Full-Time Positions (FTP)	48.00	56.00	62.00	63.00	63.00

Division Description

The RETIREMENT ADMINISTRATION Program administers a Defined Benefit (DB) retirement plan that is mandatory for all eligible State and school district employees, and for employees of political subdivisions which have elected to participate. The plan also provides separation, disability, death and survivor benefits. The mission of the Public Employee Retirement System of Idaho (PERSI) is to provide members and their beneficiaries with reliable, secure, long-term retirement, survivor, and disability benefits as specified by law, and to assist members in planning a secure retirement by providing high quality, friendly service, retirement education and information. The system also administers the Sick Leave Reserve Fund for State and school district retirees, from which monthly medical insurance premiums are paid, as well as the former Firemen's Retirement Fund and the Idaho Falls and Boise City Police Retirement Funds.

As part of the GAIN SHARING Program adopted by the 2000 Legislature, PERSI established the PERSI Choice Plan, a Defined Contribution (DC) plan for the 62,000 active members of PERSI. This plan, in addition to and separate from the DB plan, provides a 401(k) plan option to all members who are eligible. In years in which investment earnings and total DB plan assets sufficiently exceed liabilities plus one standard deviation reserve, the PERSI board may declare a portion of the excess earnings as gain sharing. When gain sharing is authorized, active members will receive their allocation in the form of a transfer into their DC account. Retirees will receive a 13th check. Employers will receive a credit against future contributions.

The PORTFOLIO INVESTMENT Program is responsible for the management of PERSI assets to ensure secure long-term returns on investments while minimizing investment costs. Beginning in FY 1996, the administrative costs of portfolio investment came under a fixed appropriation. The remaining investment costs continue to operate under a perpetual appropriation as provided in Idaho Code §59-1311.

401(k) ADMINISTRATION Program: During FY 1995, PERSI administered a 401(k) program for employees of the Department of Health and Welfare and the Department of Lands. Laws enacted by the 1995 Legislature allowed PERSI to offer the 401(k) program to all state employees beginning in FY 1996. The Idaho Super Saver 401(k) plan provides a voluntary retirement savings program for all state employees. Currently \$2 of the \$12 annual membership fee is used by PERSI for direct administrative costs of the program. The plan provider, Scudder Investment Services, receives the other \$10 for trust and reporting services. This plan was merged with the Choice Plan effective October 1, 2001.

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Comparative Summary

Decision Unit	AGENCY REQUEST		GOVERNOR'S REC	
	General	Total	General	Total
FY 2002 Original Appropriation	0	5,840,900	0	5,840,900
1. Fund Investment Officer	0	73,300	0	73,300
FY 2002 Total Appropriation	0	5,914,200	0	5,914,200
Expenditure Adjustments	0	0	0	0
FY 2002 Estimated Expenditures	0	5,914,200	0	5,914,200
Removal of One-Time Expenditures	0	(155,500)	0	(155,500)
Base Adjustments	0	0	0	0
FY 2003 Base	0	5,758,700	0	5,758,700
Personnel Cost Rollups	0	14,200	0	14,200
Inflationary Adjustments	0	45,000	0	0
Replacement Items	0	114,500	0	114,500
Nonstandard Adjustments	0	93,300	0	93,300
Change in Employee Compensation	0	29,200	0	0
FY 2003 Program Maintenance	0	6,054,900	0	5,980,700
1. Technology Improvements	0	165,000	0	117,500
FY 2003 Total	0	6,219,900	0	6,098,200
Change from Original Appropriation	0	379,000	0	257,300
% Change from Original Appropriation		6.5%		4.4%
Change in FTP's		1.00		1.00

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2002 Original Appropriation	62.00	0	5,840,900	0	5,840,900

1. Fund Investment Officer

Portfolio Investment

PERSI has grown from \$2.5 billion to over \$7 billion in invested assets over the past six years with a team made up of the Chief Investment Officer, professional investment managers and consultants, and custodial bank. This decision unit is intended to replace some of the most important services currently provided by one of PERSI's portfolio consulting firms. The contract expired on June 30, 2001 and PERSI decided to bring the daily responsibility in-house by adding an investment officer position. PERSI is estimating the net savings as a result of this change to be \$200,000. This supplemental will provide funding and one FTP for the newly added investment officer.

Agency Request	1.00	0	73,300	0	73,300
Governor's Recommendation	1.00	0	73,300	0	73,300

FY 2002 Total Appropriation					
Agency Request	63.00	0	5,914,200	0	5,914,200
Governor's Recommendation	63.00	0	5,914,200	0	5,914,200

Expenditure Adjustments

Reflects a move of .3 FTP and \$15,700 from the Portfolio Program to the Retirement System Program.

Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0

FY 2002 Estimated Expenditures					
Agency Request	63.00	0	5,914,200	0	5,914,200
Governor's Recommendation	63.00	0	5,914,200	0	5,914,200

Removal of One-Time Expenditures

Remove funding provided for one-time items.

Agency Request	0.00	0	(155,500)	0	(155,500)
Governor's Recommendation	0.00	0	(155,500)	0	(155,500)

Base Adjustments

Reflects an adjustment from fund to fund detail.

Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0

FY 2003 Base					
Agency Request	63.00	0	5,758,700	0	5,758,700
Governor's Recommendation	63.00	0	5,758,700	0	5,758,700

Personnel Cost Rollups

Includes the employer portion of estimated changes in employee benefit costs.

Agency Request	0.00	0	14,200	0	14,200
Governor's Recommendation	0.00	0	14,200	0	14,200

Inflationary Adjustments

Includes a general inflationary increase of 1.7% in operating expenditures.

Agency Request	0.00	0	45,000	0	45,000
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The Governor recommends no increase for inflation.

Governor's Recommendation	0.00	0	0	0	0
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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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Replacement Items

RETIREMENT SYSTEM - Replacement capital outlay: 25 computers (\$1,700 each), two fax machines (\$1,600 each), two high end servers (\$15,800 each), three low end servers (\$2,500 each), two office chairs (\$400 each), and two printers (\$2,200 each). Replacement operating expenditures: software upgrades (\$10,000). PORTFOLIO INVESTMENT - Replacement capital outlay: one fax machine (\$2,500), one computer (\$4,000), and one printer (\$8,000).

Agency Request	0.00	0	114,500	0	114,500
Governor's Recommendation	0.00	0	114,500	0	114,500

Nonstandard Adjustments

Reflects an adjustment in Attorney General, Controller and Treasurer fees pursuant to the Statewide Cost Allocation Plan. Also reflects an increase of \$50,000 for postage expenses in the Retirement System program.

Agency Request	0.00	0	93,300	0	93,300
Governor's Recommendation	0.00	0	93,300	0	93,300

Change in Employee Compensation

Reflects the cost of a 1% salary increase for permanent and group positions.

Agency Request	0.00	0	29,200	0	29,200
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The Governor recommends state employee compensation increases to be made from salary savings.

Governor's Recommendation	0.00	0	0	0	0
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FY 2003 Program Maintenance

Agency Request	63.00	0	6,054,900	0	6,054,900
Governor's Recommendation	63.00	0	5,980,700	0	5,980,700

1. Technology Improvements

Retirement System

This enhancement will provide \$165,000 (\$7,500 ongoing) in dedicated fund spending authority for various technology improvements at PERSI. Specifically, this enhancement would fund: (1) an integrated voice response system to address increase member calls; (2) an online analytical tool for managers; and (3) a feasibility study for incorporating imaging and workflow at PERSI. These improvements will help mitigate the dramatic workload increase resulting from baby boomer retirement and the new Choice Plan.

Agency Request	0.00	0	165,000	0	165,000
Governor's Recommendation	0.00	0	117,500	0	117,500

FY 2003 Total

Agency Request	63.00	0	6,219,900	0	6,219,900
Governor's Recommendation	63.00	0	6,098,200	0	6,098,200

Agency Request

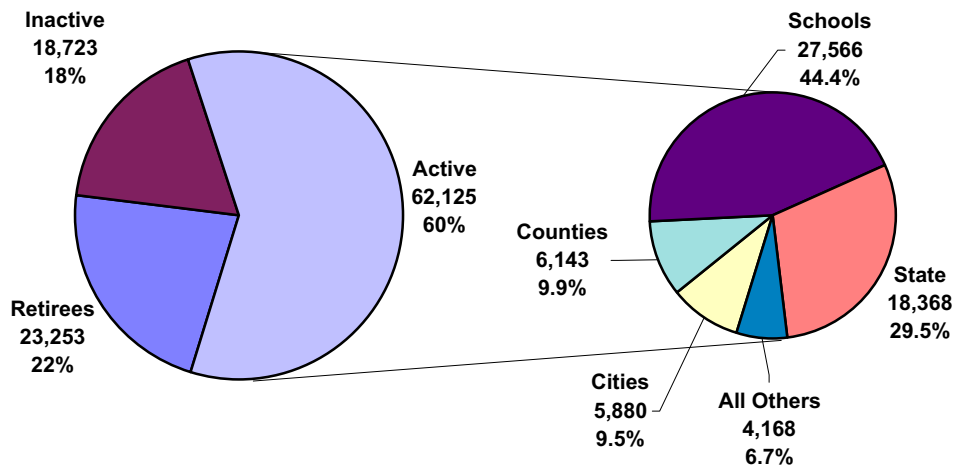
Change from Original App	1.00	0	379,000	0	379,000
% Change from Original App	1.6%		6.5%		6.5%

Governor's Recommendation

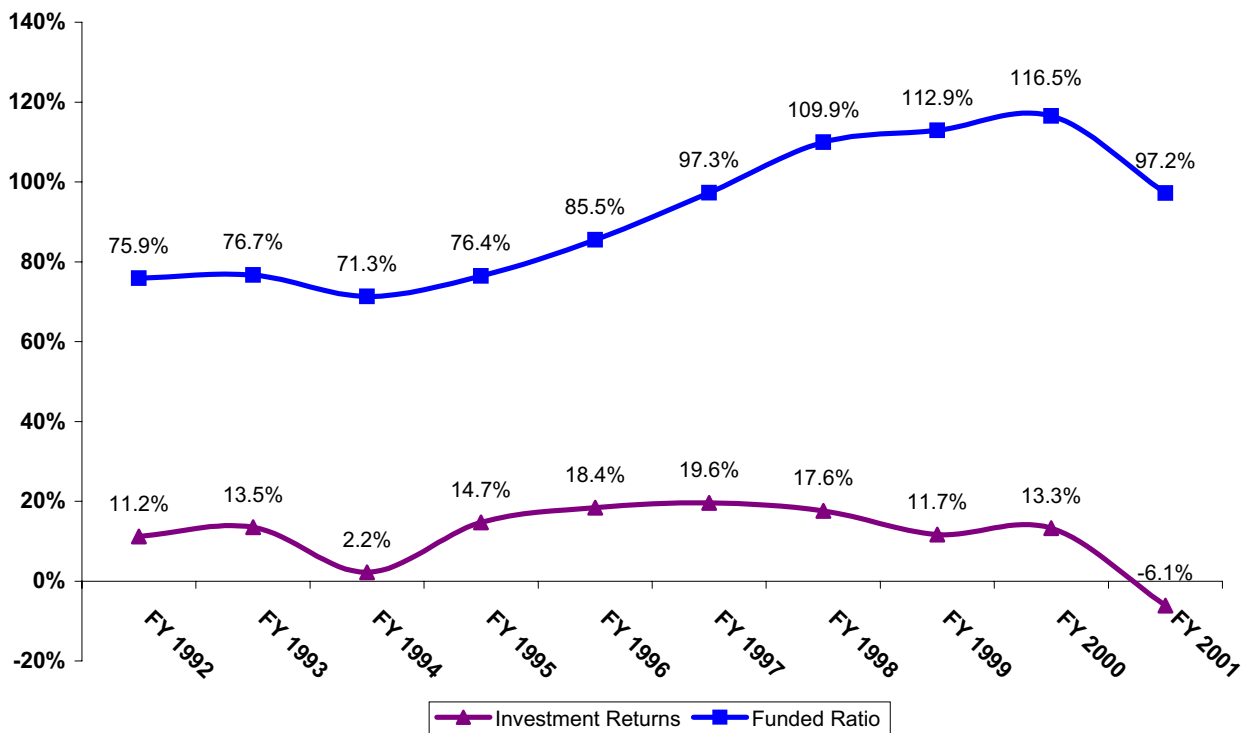
Change from Original App	1.00	0	257,300	0	257,300
% Change from Original App	1.6%		4.4%		4.4%

PERSI Membership

645 employer units belong to PERSI, for a total system membership of 104,101



PERSI - Funded Ratios and Investment Returns



•The PERSI fund experienced a -6.1% return on investments in FY 2001, which equals -\$463 million in net investment loss. As of July 1, 2001, the PERSI fund was valued at over \$6.71 billion, down from \$7.27 billion the prior year.

PERSI

Issues & Information

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Strategic Planning Act Performance Measures

Selected Measures	FY 2000 Act	FY 2001 Act	FY 2002 Est	FY 2003 Est
ADMINISTRATION				
1. Benefits paid (retirements, separations, disability)	244,892,000.0	287,037,000.0	307,130,000.0	328,629,000.0
2. Administrative expenses (below .15% asset value)	0.05%	0.0	0.0	0.0
PORTFOLIO INVESTMENT				
1. Annual investment income (losses), net of fees	828,897,800.0	(460,395,100.0) *	484,277,500.0	599,000,000.0
2. Number of investment managers at year-end	32.0	34.0	34.0	N/A
3. Number of investment managers hired/fired	4/0	2/0	1/1	N/A
4. Beginning assets (All Plans) (millions)	6,403.9	7,294.5	6,794.5	7,327.5
5. Plus contributions	309.8	259.5 **	357.5	378.1
6. Plus net investment income (All Plans)	830.3	(466.1)	489.0	606.0
7. Less benefits paid or other expenses	(249.5)	(293.4)	(313.5)	(333.6)
8. Ending net assets (millions)	7,294.5	6,794.5	7,327.5	7,978.0
401K				
1. Dollar value of employee 401K accounts***	20,900,000.0	79,200,000.0	94,500,000.0	112,000,000.0
2. Number of participating agencies	81.0	64.5	65.0	65.5

* Decline due to market losses

** Decline due to employer gain sharing credits

*** "Choice Plan" initiated FY 2001

Target Asset Allocation

This asset allocation (whereby PERSI will consistently have more than two-thirds of its assets in equity instruments) is the only way to achieve the desired 5% real return (i.e. inflation plus 5%) on investments.

